

Finance and Resources Committee

10am, Thursday 15 January 2015

Revenue Budget 2015/18 – update

Item number	7.10
Report number	
Executive/routine	
Wards	

Executive summary

This short report appraises members of the impact on the revenue budget framework of a number of recent Scotland- and UK-wide announcements. An overview of the outcome of the process whereby Service Directors have systematically reviewed budget pressures and the deliverability of savings included within the framework, or previously approved for delivery in 2015/16, is also provided.

Links

Coalition pledges	P30
Council outcomes	CO25
Single Outcome Agreement	n/a

Revenue Budget 2015/18 – update

Recommendations

- 1.1 Members of the Finance and Resources Committee are requested to note the contents of the report and to remit the contents, alongside a further update to be reported to the Committee meeting on 3 February, to Council as part of setting the 2015/16 revenue budget on 12 February 2015.

Background

- 2.1 At the Finance and Resources Committee meeting on 30 September 2014, members approved the release for public engagement of the Council's 2015/18 revenue and 2015/2020 capital framework. The revenue framework set out proposals to a total value of £28.5m in 2015/16 which, if approved and delivered in full, alongside management of other relevant risks and pressures gave the potential for revenue investment of up to £6.5m. Following the approval by Council on 23 October of some £5.2m of savings for delivery in 2015/16, net savings of £16.8m still require to be identified to deliver a balanced budget for the next financial year.
- 2.2 A number of potential uses of any available "headroom" were set out in the update report considered by the Committee on 27 November. In outlining these potential uses, however, it was emphasised that its availability was subject to the on-going review of framework assumptions and an assessment of both a number of demand-led pressures and the robustness and deliverability of the savings proposals contained within the budget framework.
- 2.3 While the report's primary purpose is therefore to inform members of the outcome of the savings assurance and pressures review, an update is initially provided on the income and expenditure assumptions underpinning the budget framework. Members' attention is drawn in particular to the impact of changes to the employers' contribution rate for teachers' pensions and a review of loans charge forecasts for 2015/16 and future years.

Main report

Chancellor's Autumn Statement

- 3.1 The Chancellor of the Exchequer delivered his Autumn Statement on 3 December. The contents of this statement reinforced the UK Government's on-going strict fiscal policy, with some commentators suggesting that a further five

years' real-terms reductions in public expenditure should be anticipated. Coming on top of previous years' decreases, the required savings will be increasingly challenging to deliver, with a need to consider both service prioritisation and transformation if the Council is to continue to be able to invest in its priority areas.

- 3.2 The announcement also indicated, however, the provision of significant additional resources to the National Health Service in England. This increase, along with other spending changes in areas where, under current devolved arrangements, responsibility rests with the Scottish Parliament, has resulted in total favourable "Barnett Consequentials" for Scotland of £231m in 2015/16, the majority of which are of a revenue nature. As of the time of writing, the Scottish Government has thus far allocated £127m, the element specifically relating to increased NHS spend in England, to health services in Scotland. COSLA, on behalf of all councils, is seeking active engagement with the Scottish Government around potential uses of the remaining sums and active engagement has similarly been made with Lothian Health on current pressures within Health and Social Care.
- 3.3 While not specifically highlighted in the Chancellor's statement, reference was made in its supporting documentation to the results of updated actuarial valuations in guiding employees' and employers' respective teachers' pension contribution rates. The UK Treasury has confirmed that employers' rates will increase by around 2.3% from September 2015 i.e. from the current rate of 14.9% of salary to 17.2%. Across Scotland as a whole, this is expected to result in additional costs of £28m in 2015/16, increasing to £48m in 2016/17. Based on current teacher numbers in Edinburgh, the estimated additional liability for the Council is some £1.8m in 2015/16 and £3.1m in 2016/17. While the outcome of joint COSLA and Scottish Government lobbying of the UK Treasury (and the allocation of the Barnett Consequentials referred to above) is not yet known, in the absence of firm evidence to the contrary, a corresponding additional liability has now been reflected within the budget framework.

Local Government Finance Settlement

- 3.4 The Cabinet Secretary for Finance, Constitution and Economy announced the Local Government Finance Settlement for 2015/16 on 11 December. Provisional grant allocations had previously been announced in July. As the budget framework had been updated to take account of subsequent confirmed funding in such areas as free school meals, early learning and childcare and Discretionary Housing Payments, the level of support indicated for Edinburgh was in line with expectations for both revenue and capital resources. Alongside the extent of pressures affecting a range of demand-led services, this reinforces the need to make difficult choices in establishing the basis of a sustainable budget going forward.
- 3.5 As anticipated, the announcement confirmed that receipt of full funding is contingent upon delivery of a further year's freeze in Council Tax levels.

Funding of £7m (equivalent to a 3% increase) will be lost if a Council Tax freeze is not approved by Council. Following agreement to explore jointly with COSLA alternative, outcome-focused measures of educational performance, however, there is no proposed holdback at this stage in respect of maintaining teacher numbers, although this sanction remains available to the Scottish Government should agreement not be reached.

Smith Commission

- 3.6 Members will be aware that the principal recommendations of the Smith Commission on devolution of further powers to Scotland were published on 27 November. While the resulting changes have the potential, in due course, to impact upon the last year of the framework, pending development of specific proposals, no changes have been incorporated at this stage.
- 3.7 In addition to the scrutiny of pressures and deliverability of previously-approved and proposed savings within services outlined in later sections, further analysis has been undertaken of a number of corporate budgets, most particularly loans charges and Council Tax.

Loans charges

- 3.8 A recent review of current loans charge provision has taken into account the extent of, and funding sources for, the capital investment programme, as well as the current debt maturity profile and projected availability of cash balances to continue the Council's medium-term strategy of using these in lieu of external borrowing. On the basis of this analysis, an opportunity has been identified to realise savings sufficient to offset, on an ongoing basis, the 2015/16 pressure in respect of increased teachers' pension contributions referred to at paragraph 3.3. The loans charges position for subsequent years remains the subject of ongoing review and updates will be provided to the Committee in the following months.

Council Tax

- 3.9 Further work is also being undertaken to examine underlying movements in the size and profile of the Council Tax base, including the impact of the level of discounts and exemptions. Any further update in this area will be reported to the Committee on 3 February.

Living Wage

- 3.10 As members will be aware, the Council adopted payment of the nationally-set Living Wage for its staff in January 2013. The Living Wage currently stands at £7.65 per hour but is subject to annual review by the Living Wage Foundation based on its assessment of changes in the basic costs of living.
- 3.11 The Foundation has indicated that the Living Wage will increase to £7.85 per hour from April 2015. Council has previously approved funding of £2.06m to implement the Living Wage and, based on modelling of anticipated pay liabilities,

the resulting additional £0.101m over and above wider existing pay award provision for the staff benefiting can be contained within this overall sum.

Organise to Deliver

- 3.12 Members will be aware of a report elsewhere on today's agenda setting out further details of the underlying BOLD business cases for the workstreams being taken forward as part of the "Organise to Deliver" transformation programme. The report highlights potential additional revenue programme support expenditure of £2.9m in 2015/16 and, subject to approval of the report's recommendations, these costs, as well as longer-term staff restructuring costs, will require to be considered as part of setting 2015/16's and future years' revenue budgets.

Management of pressures

- 3.13 A number of anticipated service pressures in 2015/16 were highlighted in the report to the Committee on 27 November. Following that meeting, a further in-depth examination of pressures, and identification of mitigating measures, was initiated to confirm the extent to which these could be contained by services.
- 3.14 This further work has indicated that significant residual underlying pressures remain in both Health and Social Care and Services for Communities (the latter in specific respect of iPFM). The respective Directors have therefore been instructed to develop, as a matter of urgency, potential actions to mitigate these residual pressures and a further update will be provided to the Finance and Resources Committee on 3 February.
- 3.15 Following consideration on 11 December, subject to the identification of corresponding funding as part of the budget motion, members will also be aware that Council approved the introduction of a new Shared Repairs Service. The estimated full-year cost of this service in 2015/16 is £2.16m.

Assurance review of savings proposals

- 3.16 Alongside a systematic review of budget pressures, Directors have been instructed to assess the robustness and deliverability of all savings proposals comprising the budget framework (and those savings approved for delivery in 2015/16 as part of previous years' budgets). A common template considering such areas as the proposals' strategic alignment and the extent of senior management ownership and stakeholder engagement, as well as associated financial projections, risk management arrangements and the setting of key milestones, has been used for all options to capture this assessment on a consistent basis, producing a "RAG" assessment for each proposal.
- 3.17 The Director of Corporate Governance has indicated that, following more in-depth consideration, the proposals in respect of merchandising (CG1) and website advertising (CG2) (together totalling £250,000) are no longer assessed to be achievable and has identified alternative, primarily workforce efficiency-related savings to address the resulting shortfall. Details of these alternative

savings will be made available to members and included in the update report to Committee.

- 3.18 While potential challenges around delivery have been identified for a number of other proposals included within the framework or approved for delivery in 2015/16 as part of previous years' budget motions, across the piece Directors have confirmed that the level of savings set out remains achievable. In recognising the crucial importance of identifying, and then delivering, the full level of savings set out within the framework, however, a number of areas have been prioritised to ensure that all implementation plans are suitably robust. An update on progress will be provided to the Committee on 3 February.

Measures of success

- 4.1 Relevant measures in setting the Council's revenue budget include:
- Accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2015/16 to be set as part of a longer-term framework;
 - Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and
 - Subsequent delivery of the approved savings, particularly where these are linked to additional service investment.

Financial impact

- 5.1 Inclusion of additional revenue investment within the budget framework is contingent upon the development, and subsequent delivery, of corresponding savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

Risk, policy, compliance and governance impact

- 6.1 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the anticipated service impacts outlined in the respective budget templates.

Equalities impact

- 7.1 Those proposals comprising the budget framework are subject to on-going assessment of their corresponding potential equalities and human rights impacts. The results of these assessments will be reported to the Finance and Resources Committee in February to ensure that members pay due regard to them in setting the Council's 2015/16 budget on 12 February 2015.

Sustainability impact

- 8.1 The proposals comprising the budget framework have also been subject to an assessment of their likely corresponding carbon impacts. The results of these assessments will be reported to the Finance and Resources Committee in February to ensure that members pay due regard to them in setting the Council's 2015/16 budget on 12 February 2015.

Consultation and engagement

- 9.1 The contents of the budget framework have been the subject of considerable public and stakeholder engagement. The budget planner, in particular, has brought together the revenue and capital aspects of the budget and provided additional insight into the priorities of the city's residents. A summary of the main themes emerging from the public engagement will be considered by the Finance and Resources Committee on 3 February.

Background reading/external references

[Revenue Budget 2015/18 and Capital Budget 2015/2020 – update](#), Finance and Resources Committee, 27 November 2014

[Revenue and Capital Budget Framework](#), Finance and Resources Committee, 30 September 2014

[2015/18 Revenue and Capital Budget Update](#), Finance and Resources Committee, 7 May 2014

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Links

Coalition pledges	P30 – Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	n/a
Appendices	None